EXHIBIT B
BUDGET DETAIL AND PAYMENT PROVISIONS

I. PAYMENT PROVISIONS

A. General

The Contractor agrees to arrange for the provision of medical benefits and case management services for eligible and enrolled child and infant subscribers as described in Exhibit A.

B. Fees Provided to Contractor

1. As specified in Items I.C. and I.D. of this Exhibit, the State shall provide Title XXI federal reimbursement to the Contractor based on a flat fee per month for each child subscriber starting in the month of the child's first birthday and ending in the month of the child's eighteenth birthday. This fee is set forth in Attachment I., Confidential Attachment, Rates of Payment.

2. As specified in Items I.C. and I.D of this Exhibit, the State shall provide Title XXI federal reimbursement to the Contractor based on a flat fee per month for each infant subscriber. This monthly fee shall be paid during the first month of enrollment through twelfth months of the infant's life, but shall not exceed twelve payments. This fee is set forth in Attachment I., Confidential Attachment, Rates of Payment.

3. In cases of subscriber eligibility and enrollment appeals which result in liability of health care costs by the Contractor, the Contractor shall require its contracted plans to arrange for payment to the provider who rendered services. The State shall provide Title XXI federal reimbursement to the Contractor the actual costs of services received. However, the Contractor shall reimburse and claim for such services at any discounted rate that the Contractor's plan may have in place with the provider participating in the C-CHIP and that is accepted by the provider as payment in full.

4. Administrative Costs

a. As specified in Items I.C. and I.D. of this Exhibit, the State shall provide Title XXI federal reimbursement to the Contractor based on total administrative costs for the month.

b. For the purposes of this Agreement, Administrative Costs are those related to administering the program, which include costs related to eligibility determinations and C-CHIP enrollment services, outreach and state support costs. Administrative costs shall not include those costs of providing or directly administering medical services which are already included in the benefit rates set forth in the Confidential Attachment, Rates of Payment.

c. Contractor Administrative Costs must be in accordance with 45 CFR, Part 74, Section 74.27, "Allowable Costs" and the provisions of OMB Circular A-87. In accordance with federal law, Title XXI, Sec. 2105 (a), the State is limiting payments of administrative costs to ten percent (10%) of the combined administrative costs and benefit costs reduced by monthly contributions (or net benefits). Benefit costs are defined as a combination of Items I.B.1. through I.B.3.

d. The State shall receive compensation for State administrative services, based on the non federal share of total State personnel and overhead costs. The State administrative costs shall be equally shared by all contractors currently participating in C-CHIP. The Contractor shall be billed its monthly pro-rata share of total State administrative costs. The Contractor shall pay the applicable non federal share to the CHIM fund. These funds shall be retained for the draw of Title XXI reimbursement and made available to the State for services provided under the Agreement.

e. The Contractor shall receive federal Title XXI reimbursement for actual, justifiable, allowable Administrative Costs of no more than ten percent (10%) of net benefit costs.

5. Retroactive Payments for Subscriber Services

As allowed by the State Plan Amendment for C-CHIP, the State agrees to pay retroactively from January 1, 2003 (SPA filing date) through June 30, 2005, allowable benefit costs for subscribers with effective dates of coverage for the period of retroactivity. The State shall provide Title XXI federal reimbursement to the Contractor based on actual, allowable benefit costs for the county's existing Healthy Kids program enrollment for the period of retroactivity. The State reimbursement shall be calculated based on a predetermined flat fee per month for each child and infant subscriber enrolled. This fee is set forth in Attachment I., Confidential Attachment, Rates of Payment.

6. Offset of Subscriber Contributions

a. As specified in Exhibit A, Item IV. N., the Contractor shall collect a subscriber contribution flat fee per month for each subscriber enrolled.

b. The Contractor shall report to the State the monthly subscriber contributions collected in the Monthly Financial Report as specified in Item I.D. of this Exhibit.

c. The State shall reduce the amount of benefit fees paid to the contractor for expenditures described in Item I.D. of this Exhibit by the amount of subscriber contributions collected on a monthly basis. Reduction of subscriber contributions shall be based on the actual amount of subscriber contributions collected for the billed month.

C. Payment Schedule

1. The State agrees to draw Title XXI federal fund reimbursement for payments incurred in Items I.B.1. through 4. of this Exhibit and return the Contractor's share, minus State administrative costs as set forth in Item I.B.4.d.of this Exhibit, monthly in arrears. Payment is contingent on the State approval of the monthly Financial and Enrollment Reports described in Item I. D of this Exhibit and the submission of .electronically transferred county funds for the Title XXI reimbursement. The State shall pay the Contractor

the Title XXI fund reimbursement within 30 days of the receipt of corresponding County contribution.

2. The State agrees to draw Title XXI federal fund reimbursement for the retroactive benefit costs as described in Items I.B.5. of this Exhibit on a one time basis upon submission an approved Retroactive Benefit Report and the submission of electronically transferred county funds for the Title XXI reimbursement. Payment shall be made within 30 days of the receipt of County contribution.

D. Financial and Enrollment Reports

1. Monthly Financial Reports

a. The Contractor shall also submit to the State, a monthly financial report, by the fifteenth day of the following month, with supporting documentation and a Certificate attesting the validity of costs and services provided, in an electronic and paper format specified by the State. ,

b. The financial report shall justify and request payment for services provided to program subscribers pursuant to Items I.B.1, 2, 3, 4 and 6 of this Exhibit.

c. The monthly financial report shall indicate the total County contribution to be transferred by the Contractor to the Children's Health Initiative Matching (CHIM) fund. The County reimbursement amount on the monthly financial report will also include the applicable State administrative costs, as determined in Item I.4.d. of this Exhibit, for State administration services provided under this Agreement.

d. The Monthly Financial Report shall provide adequate documentation for State approval of Title XXI reimbursement for allowable county administrative costs, which will not be in excess of the established ten percent (10%) of net benefits costs for contractor administrative costs.

2. Monthly Enrollment Report

The Contractor shall submit to the State monthly enrollment reports, along with the Monthly Financial Report, by the

fifteenth day of following month, in a standardized electronic and paper format specified by the State. The monthly enrollment reports shall be submitted with the corresponding HIPAA compliant enrollment files as specified in Exhibit A, Item IV.J.3. The State shall use the monthly enrollment reports to verify the Contractor's calculations of the applicable monthly Title XXI contribution to be transferred to the CHIM fund. Because the period of availability of federal funds is limited, the Contractor shall submit the monthly enrollment reports on a timely basis to ensure availability of the Federal funds for reimbursement.

3. Retroactive Benefits Payment Report

No later than 60 calendar days after submission of the first Monthly Financial Report, the Contractor shall submit to the State a Retroactive Benefits Payment Report, covering the period set forth in Item I.B.5. of this Exhibit, along with the supporting enrollment reports, in a standardized electronic and paper format specified by the State. The supporting enrollment reports shall be submitted with the corresponding HIPAA compliant enrollment files as specified in Exhibit A, Item IV.J.3. The State shall use the enrollment reports to verify eligibility for retroactive payments, as well as the Contractor's calculations of the applicable Title XXI contribution to be transferred to the CHIM fund.

4. Quarterly Budget Report

The Contractor shall submit to the State a Quarterly Budget Report, sixty days prior to the start of each federal quarter, in a standardized electronic and paper format specified by the State. The Quarterly Budget Report shall include monthly estimates of enrollment and corresponding expenditures in a two year State Fiscal period. A State Fiscal period is defined as the twelve month period beginning July 1st through June 30th. This report is a federal requirement, therefore, the State's ability to pay the Contractor is contingent on the timely submission of the Quarterly Budget Report.

5. Quarterly Statistical Enrollment Report

The Contractor shall submit to the State a quarterly statistical enrollment report, by the tenth day after the end of the quarter, in an electronic and paper format, as specified

by the State. The Quarterly Statistical Enrollment Report shall include actual enrollment for each federal quarter, including statistics on new enrollment, disenrollment and ever-enrolled subscribers. This report is a federal requirement; therefore, the State's ability to pay the Contractor is contingent on the timely submission of the Quarterly Statistical Enrollment Report.

6. Any financial, enrollment, retroactive payment, budget or statistical enrollment report received not completed in accordance with Items I.D.1. through 5 of this Exhibit shall be considered unacceptable and returned to the Contractor unprocessed with an explanation of any problems with the financial report. The Contractor may resubmit an acceptable report. The State reserves the right to make minor corrections to the report and process the reports for payment or reporting with the corrections.

7. Any financial, enrollment, and retroactive benefit payment report submitted as described under Items I.D.1. through 3 after review and approval by the State, shall be considered valid and acceptable for processing of payment for benefit and administrative services provided to program subscribers.

8. The State will notify the Contractor when it has approved the Monthly Financial Report and Monthly Enrollment Report or the Retroactive Benefits Payment Report and request submission of the applicable County contribution to be submitted by the Contractor electronically to the State Treasurer's Office. Upon receipt of the County contribution, the State will process the payment of the Title XXI federal reimbursement in accordance with State and federal payment procedures.

II. FISCAL CONTROL PROVISIONS

A. Cost Controls Provided by Contractor

The Contractor shall ensure that the Contractor's plans provide routine monitoring of the cost, quantity, and quality of benefits provided by participating providers to subscribers, for the purpose of determining whether the level, type, and cost of such benefits are appropriate to the health care needs of the subscribers. The system of monitoring utilization shall include reporting to its providers of the findings of the Contractor's plans' monitoring activity.

B. Payment Limitation

Only eligible subscribers whom the Contractor has enrolled in the program are entitled to health services and benefits provided hereunder and only for services rendered or supplies received during the period for which the eligible subscriber is enrolled.

C. Availability of Federal Funds

1. It is mutually understood between the parties that this Agreement may have been written for the mutual benefit of both parties, before ascertaining the availability of Congressional appropriation of funds, to avoid program and fiscal delays which would occur if the Agreement were executed after that determination was made.

2. This Agreement is valid and enforceable only if sufficient funds are made available to the State by the United States Government for the purposes of this program for the fiscal years covered by the term of this Agreement. In addition, this Agreement is subject to any additional restrictions, limitations, or conditions enacted by the Congress or to any statute enacted by the Congress that may affect the provisions, terms or funding of this Agreement in any manner.

3. The parties mutually agree that, if Congress does not appropriate sufficient funds for the Program, this Agreement shall be amended to reflect any reduction in funds.

4. The State has the option to invalidate this Agreement under the 30 day termination clause in Exhibit D, Item I.B. or to amend the Agreement to reflect any reduction in funds.

5. In accordance with Insurance Code Section 12699.62, payments under this Agreement are available only if sufficient funds remain available for State programs funded under Title XXI.

D. Prior to Fiscal Year/Crossing Fiscal Years

It is mutually agreed between the parties that this Agreement may have been signed and executed prior to the start of the 2005-06 State Fiscal Year, before ascertaining the availability of federal funds allocated through the State Budget for the 2005-06 State Fiscal Year. This Agreement has also been written with a term that

crosses State Fiscal Years, and therefore before ascertaining the availability of legislative appropriation of federal funds for the 2006-07 and 2007-08 State Fiscal Years. This Agreement is valid and enforceable only if sufficient federal funds are made available through the 2006-07 and 2007-08 State Budgets for the purposes of this Program. In addition, this Agreement is subject to any additional restrictions, limitations, or conditions enacted in statute by the State Legislature which may affect the provision, term or funding of this Agreement in any manner. It is mutually agreed that if the State Legislature does not appropriate sufficient funds for this Program, the Agreement shall be amended to reflect any reduction in funds.

E. CHIM Fund Encumbrance

There is no specific maximum amount assigned to this Agreement. Rather, the Contractor is paid through a general encumbrance from the CHIM Fund apportioned to the Contractor on an as needed basis. Payments under this Agreement are limited to the provisions of Items I.A. and I.B. of this Exhibit.

F. Fiscal Solvency (DMHC**)**

The Contractor warrants that the Contractor's plans shall at all times maintain the reserves required under the Knox-Keene Health Care Service Plan Act of 1975, as amended, and the regulations promulgated there under by the Department of Managed Health Care, including the Tangible Net Equity regulations.

Evidence of above solvency shall be made available to the State upon request.

OR

F. Fiscal Solvency (DOI)

The Contractor warrants that the Contractor's health insurers shall at all times comply with all solvency requirements of its licensing statute and regulations and shall at all time maintain one of the following:

a. A rating of A+ under Best insurance rating, or

b. A surplus capable of paying one month of Contractor's paid claims. The amount of one month of the Contractor's paid claims shall be established by

averaging claims paid in each of the previous twelve (12) months.

Evidence of above solvency shall be made available to the State upon request.

G. Federally Funded Programs (Medicare & Medicaid)

The Contractor shall ensure that the Contractor's plans or insurers who participate in the federal Medicaid or Medicare programs remain in good standing with the State Department of Health Services for services provided to Medicaid (Medi-Cal) subscribers, with the federal Centers for Medicare and Medicaid Services for services provided to Medi-Cal or Medicare subscribers, and with the Office of the Inspector General of the Department of Health and Human Services. On request, the Contractor agrees to ensure that the Contractor's plans provide the State immediately with copies of all correspondence received by the plan(s) or insurer(s) from the Department of Health Services, the Centers for Medicare and Medicaid Services, and the Office of the Inspector General of the Department of Health and Human Services which pertains to the plans or Insurers standing with the respective departments. In addition, the Contractor shall immediately notify the State of any investigations in which there are allegations related to fraud, including but not limited to: 1) the receipt of an administrative subpoena from any state or federal agency, unless the plan or insurer is advised that it is not the target or subject of the investigation; 2) the receipt of a grand jury subpoena from any state or federal court, unless the plan or insurer is advised that it is not the target or subject of the investigation; 3) the execution of a search and seizure warrant at any of the selected plan's or insurer's offices or locations related to such investigations; and 4) the filing of any charges against the selected plan or insurer in any state or federal court related to such investigations. The Contractor shall ensure that the Contractor's plans immediately notify the State if the plan or insurer receives a letter of pending sanction or formal corrective action (such as corrective action addressing audit findings or systemic problems) from the State Department of Health Services, the Centers for Medicare and Medicaid Services, or the Office of the Inspector General of the Department of Health and Human Services.

H. Licensure

The Contractor warrants the State that the Contractor's health plan or insurer has a license to provide services under this Agreement from its regulatory agency, the Department of Managed Health Care or the Department of Insurance.

I. Licensing Sanction Notifications **(DMHC)**

The Contractor warrants that the Contractor's plans shall remain in good standing with the Department of Managed Health Care. On request, the Contractor agrees to ensure that the Contractor's plans provide the State with copies of all correspondence from the Department of Managed Health Care that pertains to the plan standing with its regulatory entity. The Contractor shall immediately notify the State if the Contractor's plans receive a letter of pending sanction or formal corrective action (such as corrective action addressing audit findings or systemic problems) from the Department of Managed Health Care.

OR

I. Licensing Sanction Notifications **(DOI)**

The Contractor warrants that the Contractor's health insurers shall remain in good standing with the Department of Insurance. The Contractor agrees to ensure that the Contractor's insurers provide the State with copies of all correspondence from the Department of Insurance that pertains to the insurer standing with their regulatory entity. The Contractor shall ensure that the Contractor's insurers immediately notify the State if the insurer receives a letter of pending significant sanction or corrective action from the Department of Insurance.

J. Responsibility for Audit, Investigation and Evaluation Findings

The Contractor shall hold the State harmless for any federal disallowances and adjustments resulting from the Contractor's performance under this Agreement. The State shall recoup any federal and state disallowances and adjustments from the Contractor including any State costs related to the disallowances.